

Message Text

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ACTION EUR-12

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 1460

INFO AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMCONSUL ZAGREB

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E. O. 11652: N/A

TAGS: ETRD, EFIN, EIND, ENRG, YO, CZ, HU

SUBJ: TWO AGREEMENTS ON YUGOSLAV-CZECHOSLOVAK ECONOMIC COOP-
ERATION

REF: BELGRADE 3989

1. SUMMARY: IN COURSE OF VISIT TO BELGRADE OF CSSR VICE PREMIER
ZAHRADNIK, YUGOSLAV AND CZECH ENTERPRISES AGREED IN PRINCIPLE TO 75-
MILLION DOLLAR CZECH DEVELOPMENT CREDIT AND 600 MILLION DOLLAR EXCHAN
GE OF

YUGOSLAV NONFERROUS METALS FOR CZECH COAL AND EQUIPMENT. TRIPARTITE
INTERGOVERNMENTAL AGREEMENT (INCLUDING HUNGARY) DESIGNED TO GUARANTEE
EARLY START ON PAN ADRIA OIL PIPELINE WAS ALSO SIGNED. ACCORDING
TO CZECH EMBASSY OFFICER, YUGOSLAVS WERE NONCOMITTAL ON TIMING
FOR TITO VISIT TO PRAGUE; THERE WAS NO SUBSTANTIAL PROGRESS IN
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OVERCOMING PROBLEMS STANDING IN WAY OF FURTHER COOPERATIVE

ECONOMIC ARRANGEMENTS; AND CZECHS DISPLAYED LITTLE INTEREST IN CONVERTING BASIS OF TRADE WITH YUGOSLAVIA FROM CLEARING TO HARD CURRENCY SETTLEMENT. END SUMMARY.

2. CZECH EMBASSY FIRST SECRETARY ISRAEL HAS BRIEFED US ON JUST-CONCLUDED 11TH SESSION OF MIXED YUGOSLAV-CZECHOSLOVAK COMMITTEE FOR ECONOMIC COOPERATION, HIGHLIGHTED BY SIGNING OF AGREEMENTS ON DEVELOPMENT OF YUGOSLAV NONFERROUS METALLURGY AND CONSTRUCTION OF PAN ADRIA OIL PIPELINE.

3. EXPANDING AND MOVING FORWARD ARRANGEMENT REPORTED IN AUGUST REFTEL, CZECH ENTERPRISE "METALIMPEX" AND YUGOSLAV LEAD AND ZINC ENTERPRISES "TREPICA, "ZLETОВО" AND "ZORKA" SIGNED CONTRACT IN PRINCIPLE UNDER WHICH CZECHS WILL EXTEND 12-YEAR \$75 MILLION CREDIT AT 5 PCT INTEREST. CREDIT WILL BE IN FORM OF MACHINERY AND EQUIPMENT, CONSTRUCTION SERVICES, COAL, COKE, ROLLED STEEL, OTHER INDUSTRIAL MATERIALS AND CONSUMER GOODS. REPAYMENT WILL BE IN CONTEXT OF \$600 MILLION ARRANGEMENT CALLING FOR YUGOSLAV DELIVERIES - OVER 12-YEAR PERIOD BEGINNING 1979 - OF ZINC, LEAD, CADMIUM, SILVER AND PRODUCTS BASED ON THESE, IN EXCHANGE FOR ADDITIONAL QUANTITIES OF CZECH MATERIALS MENTIONED ABOVE. CZECH EMBASSY OFFICER SAYS BELOW-WORLD-MARKET-PRICE PRICING FORMULA WAS DEvised.

4. CZECH-YUGOSLAV COOPERATION IN LEAD AND ZINC HAS NO CONNECTION WITH SOVIET OFFER - IN CONTEXT OF 1972 CREDIT ARRANGEMENT - TO DEVELOP YUGOSLAV LEAD AND ZINC MINES AND FLOTATION PLANTS, SOURCE EMPHASIZED. LIKE MANY OTHER SOVIET DEALS, THIS - SOURCE SAID - APPEARS TO BE TIED UP OVER DISAGREEMENT ON FINANCING OF LOCAL COSTS.

5. CZECH VICE PREMIER ZAHRADNIK, YUGOSLAV FEC MEMBER MARKOVIC, AND HUNGARIAN GOVT REP UDVARI ALSO SIGNED 20-YEAR INTERGOVERNMENTAL AGREEMENT ON COOPERATION IN CONSTRUCTION AND EXPLOITATION OF PAN ADRIA OIL PIPELINE. ACCORDING TO BELGRADE PUBLICATIONS, AGREEMENT "ASSURES INTERESTED ENTERPRISES THAT NO ADDITIONAL MEASURES WILL BRING INTO QUESTION FEBRUARY AGREEMENT TO BUILD PIPELINE." CZECH EMBASSY SOURCE STATES, HOWEVER, THAT - ASIDE FROM ASSURING PARTNERS THAT PIPELINE WOULD HAVE FULL OFFICIAL SUPPORT - GOVT GAVE WHAT AMOUNTED TO "GUARANTEED"

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THAT PIPELINE CONSTRUCTION WILL BEGIN WITHIN SIX MONTHS AND BE COMPLETED WITHIN THREE YEARS.

6. NEVERTHELESS - SOURCE SAID SOMBERLY - IT WAS MADE CLEAR TO CZECHS AND HUNGARIANS THAT \$500 MILLION FINANCING PACKAGE FOR PIPELINE STILL NOT READY. YUGOSLAVS TOLD PARTNERS THAT KUWAIT PREPARED TO CONTRIBUTE \$135 MILLION, AND LIBYA \$100 MILLION. CZECH AND

HUNGARIAN CONTRIBUTION STILL \$25 MILLION EACH.

7. ISRAEL DISMISSED AS EXAGGERATED LOCAL NEWSPAPER CLAIM THAT CZECH-YUGOSLAV TRADE WOULD TOTAL \$600 MILLION THIS YEAR. HIS ESTIMATE WAS \$470 MILLION (UP 50 PCT OVER 1973). RATHERN SUBSTANTIAL YUGOSLAV TRADE DEFICIT OFFSET BY \$60 MILLION RECEIPTS FROM YUGOSLAV CONSTRUCTION SERVICES IN CSSR AND FROM (STILL VERY LIMITED) CZECH TOURIMS. AGREEMENT ON 1975 TRADE PROTOCOL HAS NOT BEEN REACHED YET, REPORTEDLY DUE TO YUGOSLAV INSISTANCE ON LARGER CZECH SHIPMENTS OF RAW MATERIALS, AND ON VIRTUAL BALANCE OF DELIVERIES IN THIS AREA.

8. ISRAEL CLAIMED 12,000 YUGOSLAWS NOW WORKING IN CZECHOSLOVAKIA - ALL ON ENTERPRISE CONTRACTS. TALKS EARLY THIS YEAR AIMED AT PROMOTING EMPLOYMENT OF INDIVIDUAL YUGOSLAWS IN CZECHOSLOVAKIA FOUNDERED ON METHOD OF PAYMENT AND EXCHANGE RATE QUESTIONS, SOURCE ADDED.

9. MIXED COMMITTEE DISCUSSED CO-PRODUCTION SCHEMES AND OTHER FORMS OF INDUSTRIAL COOPERATION AT LENGTH, ISRAEL STATED, BUT THERE WAS LITTLE FURTHER PROGRESS. INFLATION-RIDDEN PRICES ON YUGOSLAV PROPORTION OF CO-PRODUCTION ARRANGEMENTS WOULD BE TOO HIGH, CZECHS BELIEVE, AND QUALITY AND PRODUCTIVITY TOO LOW. IN SEVERAL AREAS - INCLUDING THERMOELECTRIC POWER PLANTS - YUGOSLAWS NEED LARGER CREDITS THAN CZECHS CAN AFFORD, AND IN FARM MACHINERY AREA, ORGANIZATIONAL CONSOLIDATION IN ACCORDANCE WITH NEW CONSTITUTIONAL PROVISIONS HAS NOT YET TAKEN PLACE. ALTHOUGH COOPERATION IN THIRD COUNTRIES IS NONEXISTENT, THERE WAS VIRTUALLY NO DISCUSSION OF THIS, ISRAEL SAID.

10. EVEN THOUGH EARLIER CZECH DEFICIT IN TRADE HAS BEEN ELIMINATED, CZECHS ARE NOT ANXIOUS TO CHANGE FROM CLEARING TO HARD CURRENCY LIMITED OFFICIAL USE

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SETTLEMENT SYSTEM, ISRAEL STATED. IN LIGHT OF "SUPERIOR QUALITY AND STEADY PRICES OF CZECH PRODUCTS," THEY PREFER TO MAINTAIN CLOSE CONTROL OVER COMMODITY EXCHANGE.

11. YUGOSLAWS WERE NONCOMMITTAL CONCERNING DATE WHEN TITO MIGHT RETURN HUSAK VISIT OF OCT '73, BUT REITERATED INVITATION TO CZECH PREMIER STROUGAL TO COME TO YUGOSLAVIA IN EARLY 1975.

12. COMMENT: TALKS ON ECONOMIC COOPERATION AND NEW LEAD/ZINC ARRANGEMENT ILLUSTRATE INTENSIFYING YUGOSLAV EFFORTS TO UNCOVER "SECOND CHOICE" POSSIBILITIES FOR OBTAINING ASSISTANCE IN DEVELOPMENTS OF AREAS OF ECONOMY WHERE WESTERN PARTICIPATION NOT BELIEVED FEASIBLE. INTERGOVERNMENTAL ACCORD ON OIL PIPELINE APPEARS TO REPRESENT CZECH-HUNGARIAN INITIATIVE TO SPEED-UP SEVERELY LAGGING PACE OF PROGRESS ON THIS KEY PROJECT WHICH WAS AGREED TO TEN

MONTHS AGO, BUT HAS ENCOUNTERED FINANCIAL AND TECHNICAL PROBLEMS.
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